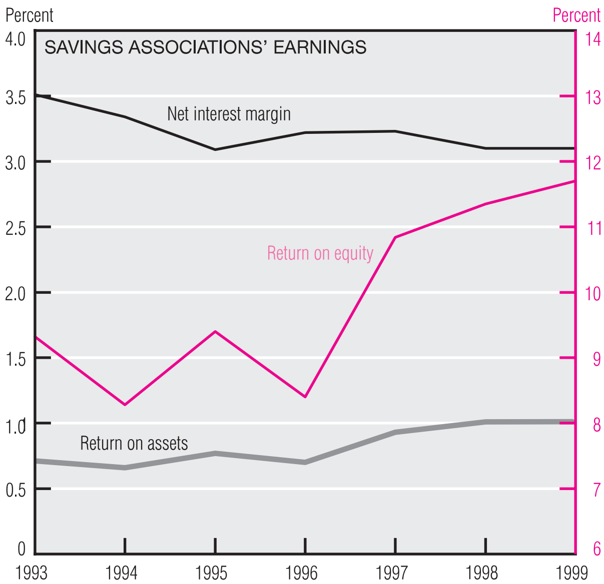
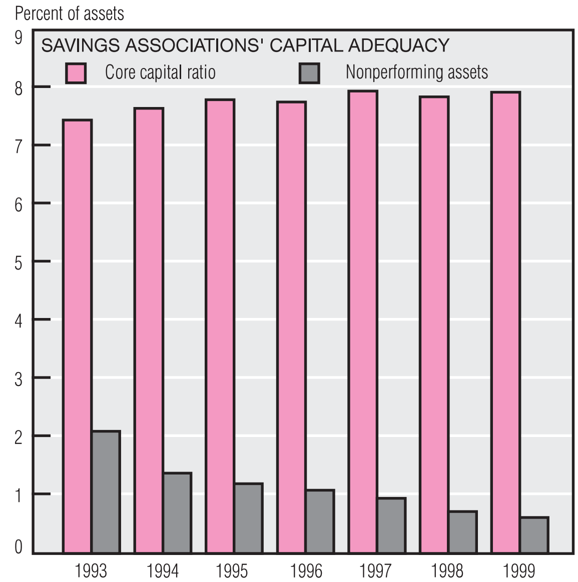
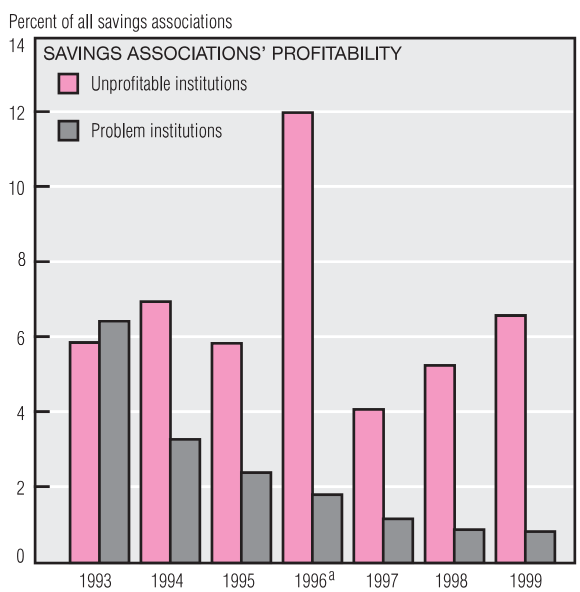
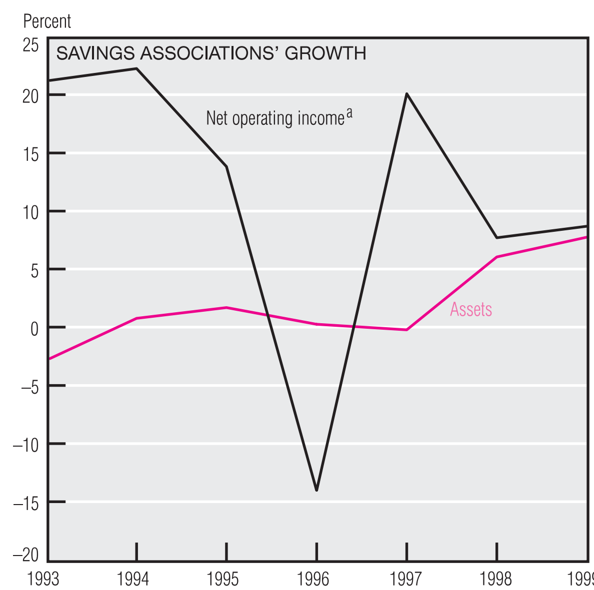
Savings Association Performance









a. The sharp 1996 decline in operating income growth resulted partly from a special insurance assessment on savings and loans deposits.
NOTE: All data are for FDIC-insured savings associations through 1999:IIQ.
SOURCE: Federal Deposit Insurance Corporation, *Quarterly Banking Profile,* 1999:IIQ.

U.S. savings associations' performance held steady in 1999:IIQ, with second-quarter earnings for the industry reaching $2.86 billion. Return on assets for the quarter was back at its historically high 1998 value of 1.01%. Further, return on equity, at 11.70%, was at its highest level since 1985; but in 1999, unlike 1985, it was generated by a robust return on assets and a steady net interest margin of 3.10%. However, the percentage of savings associations reporting losses increased from 4.1% in 1987 to 6.6% in 1999:IIQ, adding a note of caution to interpretations of otherwise positive earnings trends.

Savings associations' balance sheets showed improved asset quality, as nonperforming assets fell to 0.62% of total assets, the lowest in the last six years. Core capital remained a healthy 7.93% of total assets, a small increase from 1998. Moreover, despite a small increase in the number of savings associations with substandard examination ratings, problem institutions remained below 1% of the total.

Twelve-month asset growth through 1999:IIQ was 7.74%, nearly two percentage points higher than the 6.05% asset growth during 1998. The 8.69% growth in operating income during the same period suggests that asset growth in the first half of 1999 did not come at the expense of profit margins.

Recent industry performance suggests that specialized housing lenders, such as savings associations, will continue to thrive, although their economic role is likely to be less important than it was in the past.